RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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April 28, 1993 **LETTER 1120**

Is the Clinton program beginning to unravel? Are Americans beginning to wonder who or what they elected? I'd say "Yes" on both counts. The *WSJ* (April 23) quotes one political analyst as saying it's "the worst 100 days since Warren G. Harding, by any reasonable standard." But more on the gathering Clinton disaster later.

THE MARKET: (1) The D-J Industrial Average and its companion, the D-J Transportation Average, see-sawed erratically to new record highs during March and April. Most recently, on April 16, they both advanced to all time highs -- Transports to a record **1673.21** and the Dow to a record **3478.61.** The D-J Utilities joined the move, rising to a record **247.68** on the same day.

(2) Under the guise of new highs in the D-J Averages, we have been experiencing what some analysts are terming, "the undercover bear market." They're referring, or course, to the big breaks in the "can't-go-wrong" stocks -- drugs, health, tobacco -- and consumer stocks in general (Merck, Gillette, Bristol-Myers, Amgen, Kellogg, Wal-Mart, Coca Cola, Tambrands, K-Mart, Quaker Oats, Baxter Int., Johnson & Johnson, Waste Management and on and on). In other words, there are a lot of costly losses in these groups (groups widely held by the institutions).

(3) Meanwhile, many oil stocks have been rising to new highs, and this is a main impetus behind the record high in the Dow (remember, Chevron, Exxon and Texaco are all in the Dow).

(4) My Primary Trend Index (PTI) hit a high of 3790 on April 16. Since then it has been declining, but it must still be classified as bullish.

(5) In my opinion, the most interesting technical phenomenon of 1993 is the one nobody has written about. I'm referring to the "BUYING STAMPEDE."

For newer subscribers, I should state that *I identify a buying stampede as a rise of five points or more in the advance-decline ratio without so much as a one point intervening correction.*

The buying stampede story is told on the page 2 chart. The A-D ratio recorded a low of -10.91 last October 9. By February 26 the A-D ratio had climbed to -5.86. This meant that between October 9 and February 26 the A-D ratio had risen 5 full points without so much as a one point intervening correction. Therefore, as of February 26, a "buying stampede" was identified and in force.

Since then the A-D ratio has continued to rise. The rise (unlike many previous stampedes) has been shallow, and that may be one reason why nobody seems to have identified it (assuming, of course, they even know what a buying stampede is).

On April 16 the A-D ratio rose to a 1993 high of -4.58. This means that the total rise from the October 9 low of -10.91, has, so far, been 6.33 ratio points.

Interestingly (see page 2 chart) on February 4 the A-D ratio stood at -5.81. A correction began, and by February 17 the A-D ratio recorded a low of -6.77, exactly 0.96 points below the February 4 high. Had the ratio dropped another 0.04 ticks (i.e., to one full point), the buying stampede would have ended. So it is perhaps a

April 16 DJIA 3478.61; PTI 3790; A-D Ratio -4.58
April 23 DJIA 3413.77; PTI 3769; A-D Ratio -5.30
Dow Yield: 3.04%; Dow Price/Earnings: 32.9
Dow 200-day MA: 3310; Dow 30-day MA: 3441
Dow Times Book Value: 2.62; PTI 89-day MA: 3724
Percentage of Undervalued Blue-chips: 8%
Low Risk Buy Index: +72

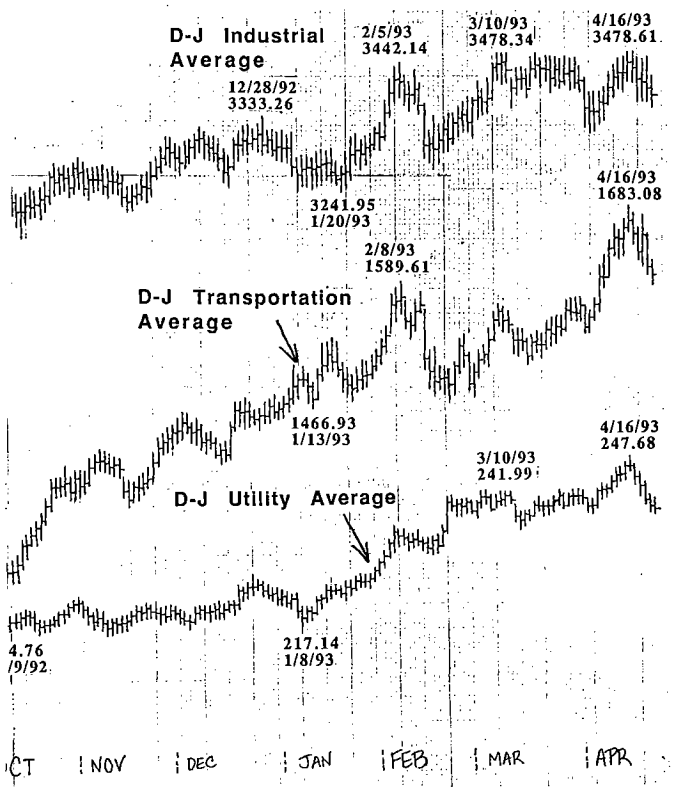
testament to technical analysis that the buying stampede held intact by a merest fraction and then continued on its upward path.

Again on March 10 the A-D ratio hit a high of -4.65. A second correction began, and by April 6 the A-D ratio had declined to -5.29. This represented a loss of just 0.64 on the ratio, a smaller correction than the February affair. Following the April 6 low, the A-D ratio started up again, with the buying stampede still in force.

The latest decline began from the April 16 peak. It will be critical now to see whether this decline ends the buying stampede. If the stampede ends, I believe we will start to see action that is far less enjoyable for the average investor.

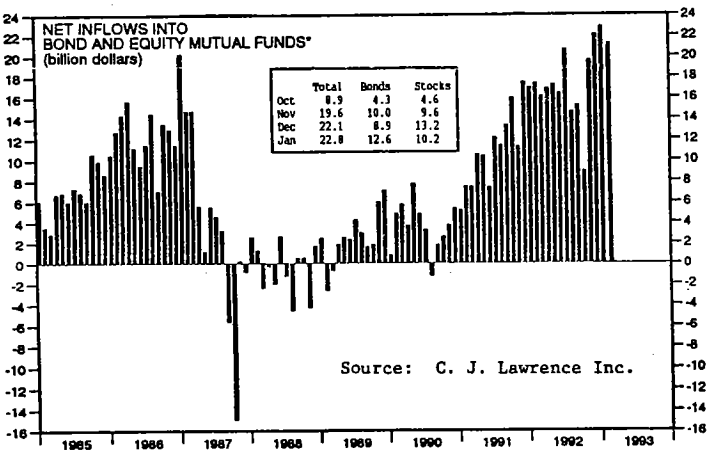
The buying stampede that began on October 9 has moved into its sixth month. This is a long period for a single buying stampede to be in force, and few stampedes have lasted much longer. Of interest is that this is the stampede that took stocks to their most overvalued level in market history.

Note: 38% of all the stocks on the NYSE (utilities, banks, bond funds, preferreds) are interest rate sensitive. With interest rates being forced down to almost record lows, this is undoubtedly one reason why the buying stampede has continued.



Conclusion: "Buying stampedes" are a relatively rare market phenomenon. They represent periods of concentrated and insistent stock-buying. When a buying stampede ends, it's like an intangible "something" snaps in the market -- a continuity is shattered. The result can be anything from a ragged period of correction to an extended bear market.

The fund flow chart below may help to explain what's behind the 1992-93 buying stampede. Here we see the huge net inflow of money into stock and bond funds during 1992 and '93. Most of this inflow is spent immediately, meaning money received is immediately poured into the market. In some cases, funds have closed their doors to new money -- they were literally growing out of control. As the chart suggests, the public now has a tremendous stake in both the stock and bond markets.


NET INFLOWS INTO
BOND AND EQUITY MUTUAL FUNDS*
(billion dollars)
Total Bonds Stocks
Oct 8.9 4.3 4.6
Nov 19.6 10.0 9.6
Dec 22.1 8.9 13.2
Jan 22.8 12.6 10.2
Source: C. J. Lawrence Inc.
1985 1986 1987 1988 1989 1990 1991 1992 1993

THE PICTURE, FUNDAMENTALS: I'm going to start this section off with a discussion of where I think we are and what could happen. First, let me repeat that I believe Clinton and his programs are an unmitigated disaster. And I think the market (and maybe a big chunk of the "middle class") is beginning to sense the same thing.

The Clinton Budget: Clinton talks a good deal about "reducing the deficit," and the American people believe he's honestly talking about -- well, about reducing the deficit. Of course what Clinton is really talking about is reducing the rate of growth in the deficit. The fact is that the deficits will continue under Clinton and the national debt will continue to rise under Clinton -- it's just a question of how much.

How much? Let's see -- in the first four years of the Clinton reign here's what Clinton proposes to add to the federal debt (this is from his own figures): The deficit for the first year will be $264 billion; the second year $247 billion; the third year $212 billion; and in the fourth year $214 billion (and these figures do not include the additional hundreds of billions of dollars Clinton will borrow from the Social Security Trust).

So the total increase in the federal debt during Clinton's first term (assuming that everything goes right and assuming that the economy will continue to grow) will be **$937 billion** or almost another trillion dollars.

Want to know more? Clinton estimates that individual tax receipts will amount to $515 billion in 1993. Clinton's report also notes that he will budget $295 billion in 1993 for interest on the national debt. So by simple arithmetic (dividing 295 by 515) we see that 57% of all individual taxes this year will go to paying the interest on the federal debt.

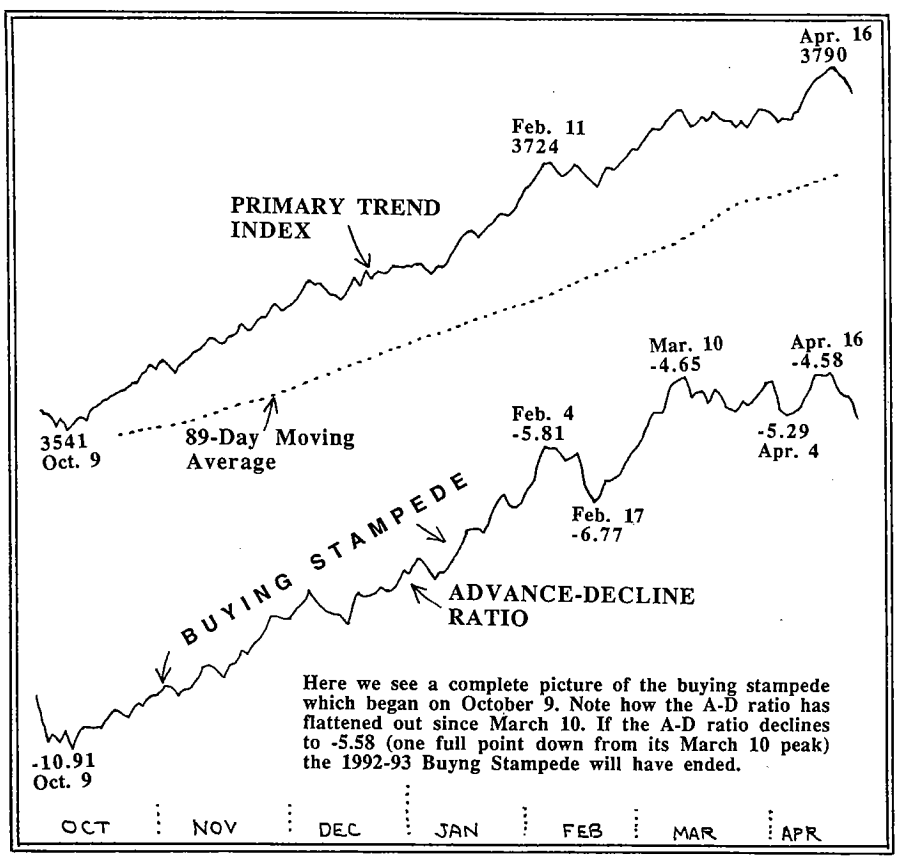
And I ask myself (since I am a student of compounding), how long can this go on? How long can administrations go on running up deficits and increasing the total federal debt? And how long can we simply sit and watch the interest on the federal debt compound and rise, and how much further will these politicians raise our taxes to pay for all this madness?

Here's an absolutely CRITICAL one -- how long can the dollar hold up under these conditions? And if the dollar continues to decline (it's sliding now, dear readers, it's sliding), how long will foreigners (who own a fat $340 billion worth of US Treasury debt) continue to hold on to that debt?

Here's more: The yield on the S&P 500 is currently 2.78%, which is one of the lowest yields in stock market history. At this yield investors are paying 36 dollars for every one dollar in S&P dividends.

Based on the price-to-dividend ratio, market history tells us that the market is now in the super-overvalued area, the danger area. What's more, the market's been in this over-valued area for many months. Actually, I've never seen the stock market hold in an overvalued area this long (and I've been watching the stock market ever since 1945, which is longer than I like to think about). But each bull market and each bear market is different, so one difference here is that we're seeing the longest overvaluation of any bull market in history. So be it.

All of which leads to this line of thought: the bull market has been trading off low, low interest rates (rates manipulated to a large extent by the Fed). But suppose investors start having second (and third) thoughts about Clinton, Hillary and the budget? Suppose investors begin to take a very dim view of the Clinton program and all these new taxes and all these new additions to the federal debt? Suppose, for the sake of argument, that investors decide that long bonds aren't the greatest place to be (remember, the public is loaded with bonds and bond funds)? And just suppose that the big boys and the banks (the banks, by the way, are also loaded with Treasury bonds) start tip-toeing towards the exits? Well, wonder of wonders, interest rates would start up. And believe me, this stock market would not take kindly to higher rates.



With the yield on the S&P at 2.78 and interest rates climbing, a primary bear market could begin. The great bull market edifice of 1974 to 1993 could, it just could, begin to topple over. And if a primary bear market should materialize, things could start unraveling in a lot of different areas, and I mean A LOT.

As the government's debts and deficits continue to climb up into the wild blue yonder, those debts will have to be financed. One way or another, they MUST be financed. And if the private markets or the foreign markets can't or won't continue to buy government debt, then the Federal Reserve will step in and increase their buying of the debt. If that happens, and I think there's a good chance that it will, then the markets will start experiencing all-out monetary inflation.

Now make no mistake about it, the Fed has been buying T-bonds. The Fed is loaded to the gills with T-bonds. But it's a question of whether the Fed's buying will accelerate. And that's where gold comes in. Gold, known to many of us old timers as "real money," is the citizens' island of safety. It's an island of safety in a world swimming in paper dollars. Well yes, you can move into Swiss francs or D-marks or yen or French francs, and these are all alternatives to the dollar. But they are also paper money, fiat money not redeemable in gold. No paper money possesses any intrinsic value. All paper money is money created by debt, and it holds its own based on "trust" in government.

My own feeling is that if things get wild, (and today almost every nation in the world is trying to re-inflate or at least "heat up" its economy), then there's bound to be a lot of switching into the hard currencies (it's happening now). But there will also be a lot of movement into gold.

Gold, I'm convinced, is the barometer that the Fed is watching. Gold is the Fed's real guide. Let a run start on the dollar or let gold go over 350 and the Fed is going to be faced with a big problem -- should they tighten or should they sit. My guess -- they'll tighten rates but keep bank reserves very loose.

So do I have a conclusion? Yes, my conclusion is that we're in a very dicey area here. The market is sky-high, the public is up to its eye-balls in stocks and bonds via 3,000 mutual funds, interest rates are at a multi-decade low, the broad money supply figures are showing negative growth, the economy is sluggish, and we have a president who (1) doesn't have a clue about what creates prosperity, and (2) is losing credence and acceptance as each new poll is taken.

Could we have trouble during 1993 and beyond? Could a primary bear market start some time during 1993? Let me put it this way -- I wouldn't bet against it. You all remember Russell's first rule: it runs -- "Above all, don't lose money."

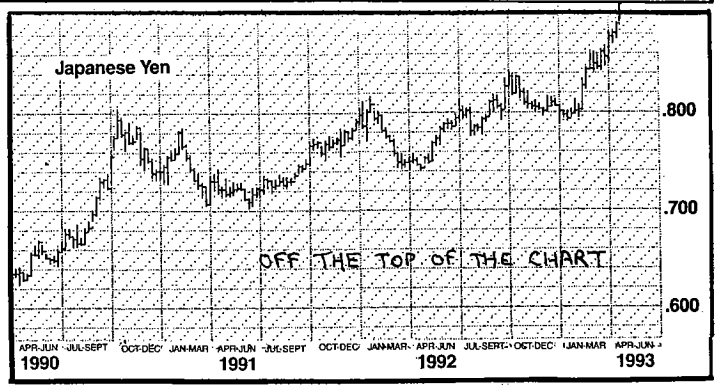
I'm now going to reveal Russell's second rule -- **"Bad things happen to over-valued markets."**

INVESTMENT POSITION: The overvaluation in this market is beginning to have its effect. What we're getting now is systematic rotation in stock groups with some groups weakening while other groups come to the fore. But in the overall picture the market isn't really going anywhere. The S&P 500 hit its high back on March 10 at 456.34, the NYSE Composite hit its high the same day at 256.36, and the now widely followed NASDAQ peaked back on February 4 at 708.85.

The strongest groups now are utilities and then finance (life insurance, the major banks, then regional banks.) But buying in this area in any quantity is risky. Frankly, I don't get the feeling that this market is ready to fall apart, but neither do I get the feeling that it is going anywhere on the upside. Maybe the market has to take in a little more of Bill and Hillary before it makes its next major move.

Frankly, I wish I loved this market, because I like to write about stocks and I like to recommend stocks. Just can't do it now. Sorry.

In the meantime, however, the bull remains in the box. The strength in the Transportation Average makes any kind of Dow Theory bear signal unlikely for a while. And the PTI still says, bull market.



CURRENCIES: The Fed can save the US banks, it can force down short-term interest rates, it can pump up the money supply flooding the system with fiat dollars -- but it can't control the currency markets. Hardly; the currencies trade over a trillion dollars a day, too big for any central bank to control (at least, control for any length of time).

This is a chart of the yen. In 1960 the yen was worth a little over 60 cents. Last week the yen went off this chart as it moved over 90 cents. Picture yourself a Japanese investor who bought American securities in 1990 or say you're a very rich Japanese investor and you bought a hotel in NYC. The yen is up almost 50% from its 1990 price, which means that in terms of yen, you've taken one hell of a beating on your "investment."

The trend of the dollar is now down against almost all the major currencies. For whatever reason, international investors and foreign exchange traders are not happy with what they see going on in the US. On top of that, Mr. Clinton has announced that he wants a cheaper dollar. Yep, the president of the United States tells the world that he want the dollar down against the world's currencies.

History tells us that a declining currency never solves anything in the long run. In the short run, it makes imports (to the US) more expensive, and it causes a lot of American tourists to go to Sarasota or La Jolla rather than London or Paris.

So far, the dollar decline has been "polite" in that it hasn't been violent or parabolic -- just persistent. But if the move out of the dollar becomes a "run" on the dollar-- watch out. That will produce reactions that I guarantee our people in Washington will not like.

NOTES & QUOTES: Let me say that I think Bill Clinton means well (I mean I think he does). The problem: he just doesn't understand how the economy works. Clinton has spent his whole life "on the other side," meaning that he has spent all his mature life with the government. And any businessman will tell you that there are two areas that the businessman worries about (1) the government, and (2) the competition. But battling the competition usually amounts to a fair fight, whereas battling the government means an unfair fight and maybe an audit.

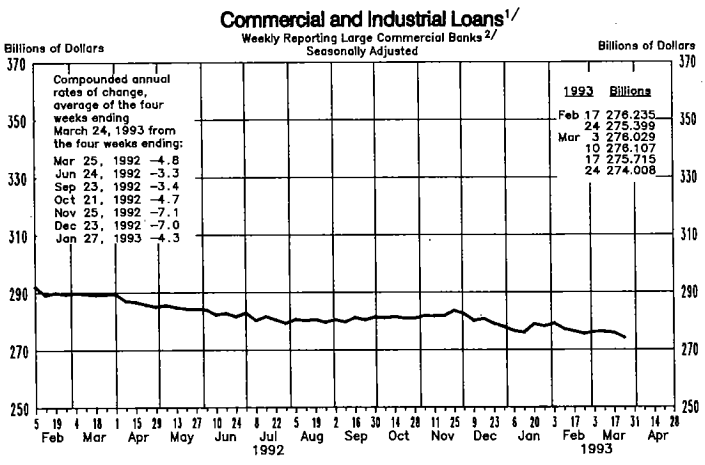
* *

The massive restaurant business is up in arms over our president's proposal to cut the deductibility of business meals from 80% to 50% (remember, it used to be 100%). Over five years $16 billion in new taxes would be collected, but critics charge it would cost 165,000 jobs. Russell comment: Maybe we should send Clinton on an extended vacation -- give him a rest from thinking up new taxes.

The *WSJ* offers this comment in its April 12 editorial: "Mr. Clinton says he wants to 'grow the economy,' by taking money from taxpayers and giving it to the government to 'invest.' The theory is that Robert Reich or Laura Tyson or some other genius knows how to spend for a higher return than do millions of Americans spending their own money. If this were true, Russia would be paradise. The alternative, which Russia is now lurching towards, is to give individuals the incentive to save and invest as they see fit. Republicans once believed this but lost their way during the Bush-Darman detour. The very radicalism of the Clinton program now makes it easier for Republicans to rediscover their principles."

And this from *Investor's Business Daily* (April 12): "Hardly a week goes by in which Congress or the Clinton Administration doesn't single out a successful industry to tax, regulate or otherwise harass. The trend is worse than worrisome. First, it was the drug industry, which was threatened with price controls. Then is was Cable TV, which was ordered to roll back rates. Next, it was tobacco and liquor companies, which would be subject to higher 'sin taxes.' The insurance companies were put on notice last week. It was informed by Hillary Clinton's health-care task force that, in the new era of socialized medicine, it will have to restructure to survive. 'Health insurance as we know it,' Ira Magaziner exulted, ' . . . will virtually disappear.'"

Hey, maybe I've been too hard on Clinton. Let's see, Clinton probably knows that the money supply figures are sagging, he may have even seen this chart (courtesy the St. Louis Fed, showing Commercial and Industrial loans at a new low), and well, Clinton is nervous. He wants that $16 billion stimulus bill, the bill that's going to "put thousands of Americans back to work." And those Republicans who have been filibustering in Congress, are they being mean? Ah, I don't know, but I do know this -- the economy is sputtering even though a lot of lean and mean corporations are producing fat profits. But Clinton isn't worried about corporations, he's worried about people (people, better known as voters).



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Help! Contracts have not been signed yet, but it looks as though the IRS will turn to private industry in its effort to collect taxes. The IRS now has 100,000 employees plus an antiquated computerized dunning system which doesn't seem to be able to collect what the IRS thinks it should collect. At any rate, the IRS, it appears, will use the services of a private company this year, and if that works, they will ask Congress to allow it to use additional private companies.

* *

I'm completely flabbergasted by the number of facts, insightful letters, pamphlets and books about the Fed that I have received from subscribers (lawyers, judges, professors, doctors). Believe me, it was an eye-opener, and I'm just amazed at how many thoroughly knowledgeable subscribers I have. In a future Letter I'll discuss the Fed and how the system circumvented the law of the land -- the Constitution. A central bank? The framers of the Constitution would have rolled in their graves if they could have foreseen the rise of the Federal Reserve System, our engine of inflation.

* *

California's criminals love innovation. Last week one of our local La Jolla jewelers was introduced to a nasty new trick. Two gunmen held him up, cleaned out his jewelry, then tied him up and placed a live hand grenade between his thighs so that if he moved or tried to rise, the grenade would go off. Some hours later, happily, the bomb squad removed the grenade -- the robbers got away and have not been seen since.

* *

More on Taxes (am I becoming obsessed?): A coming University of Michigan study suggests that big US companies spend $1.5 billion a year on corporate income tax compliance. Then with excise, payroll and the total tax cost for business, you're talking near $100 billion. Then individuals spend $5 billion a year for pro help plus $30 billion of their own time. So the total cost of the current tax system has become so ridiculous that pressure is building for a different system. Clinton hasn't even addressed this issue. I think that increasingly, there will be pressure for something along the lines of a national sales tax or a VAT. I'll say it again -- the current tax system is a blight, a monster, and it's developed into a massive industry. It's time we got rid of it.

* *

Being a politician can't be too bad, because everybody seems to want to be one. In Texas, 24 candidates are fighting it out to take Bentsen's place. And in Los Angeles, 52 people were on the list to be the new mayor (the list is now down to around 24).

* *

Hollywood evidently is fascinated with what a woman is worth (in dollars). In "Pretty Woman" Julia Roberts was worth $3,000 for one week. In "Honeymoon in Vegas" Sarah Jessica Parker went for $65,000, and just for a weekend. In "Mad Dog and Glory" De Niro offers Uma Thurman on a permanent basis to Bill Murray for $75,000. And ta da, the winner is Demi Moore, who went for a cool million (one night only) to Robert Redford. But Demi's cagey lawyer insists she could have gone for $2 million. Price, price, price, everything is price.

* *

Don't write off Ross Perot. Both the Republicans and Democrats are wooing him (or actually wooing his votes). Perot is now openly breaking with Clinton. And most recently, he's hinting that he may run again for president. If Clinton screws up (and I think he's doing it), Perot will emerge as a serious force in '96.

* *

This year marks the 250th anniversary of Thomas Jefferson. Jefferson was probably the greatest genius ever in American government. He possessed an interest and wide knowledge in almost everything including the weather, horticulture, architecture, furniture, music, languages (he spoke and read seven), books, cooking, astronomy, medicine, arts, surveying, and paleontology. In his lifetime he wrote 18,000 letters to friends and kept five notebooks simultaneously. When he took office as president, the nation was $80 million in debt. Jefferson immediately attacked the debt, which he reduced by $27 million by the end of his tenure (William Jefferson Clinton, take note). By the way, Jefferson also wrote the Declaration of Independence.

* *

Are Americans getting sick of getting healthy? Look at these figures. Only 33% of Americans now do strenuous exercise, down 4% from 1991. Pork consumption was up 8% per person in '92. Only 51% of Americans said they avoid fat, down from 57%. Smoking had declined in the US for 26 years. In 1991 this was reversed as 25.7% of the population smoked, up 0.2% from 1990. And a Louis Harris poll found that 66% of Americans were overweight, up from 63% in '91. Ah yes, and Oprah has gained it all back (or most of it).

* *

Where to -- Japan? The Nikkei stock average hit a record high of 38,916 in late-1989. Then it crashed to 15,596 last April. Finally, the Japanese government got scared. They announced a $93 billion spending program, then came up with another one for over $100 billion. At the same time the powerful Ministry "suggested" that Japanese funds refrain from dumping stocks. When last heard from, the Nikkei was aiming to hit 20,000 again. A lot of analysts

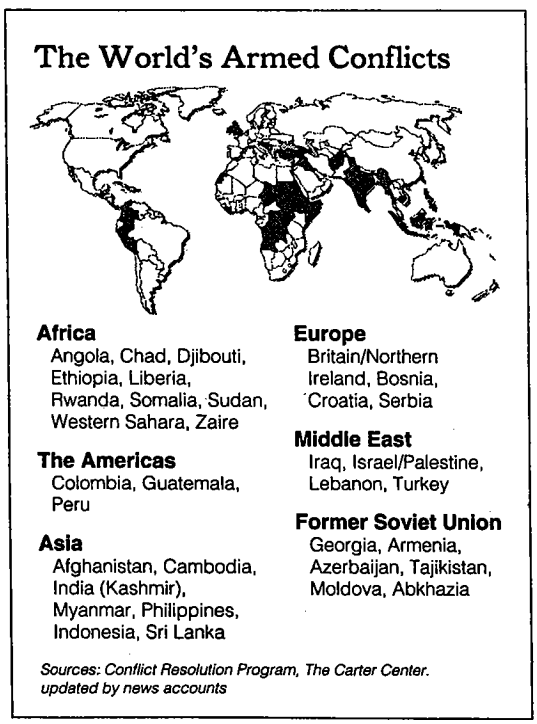
think the rise is manipulated and phony. Time will tell. In the meantime, with imports sagging and exports holding their own, the yen has spurted to record highs against the dollar. Some traders are even saying that we'll see a one-dollar yen. If that happens, Americans touring Japan better bring their own sandwiches.

* *

For football fans. This year free agents' salaries are going wild. But next year it looks like teams will have a $31 million cap to sign 53 players. Some teams have already committed two-thirds of that amount to sign 18 to 20 players. That means owners will have only one-third of the money to sign two-thirds of the players. Which means that 1994 will be an interesting year for football. It also means that there'll be a lot of unhappy players (unless, of course, they happen to be stars).

* *

Is the world insane? If you look at this map (from the *NY Times*, April 11) you've got to think so. The map shows the areas of wars across the globe. My own thinking is that one of the problems is that there are just too many people on the planet and it's getting worse. Ponder this: it's estimated that the world population (now 4.2 billion) will increase by 60% in the next 30 years, 95% of the increase coming from the developing countries. This will vastly increase unrest and also set off mass migrations to the north. It will also undermine the economies of many nations. It will (this is happening now) generate a rise in ethnic strife and nationalism. Mmm, find me an island, preferably with not too many people on it. Tahiti, anyone?


The World's Armed Conflicts
Africa
Angola, Chad, Djibouti, Ethiopia, Liberia, Rwanda, Somalia, Sudan, Western Sahara, Zaire
The Americas
Colombia, Guatemala, Peru
Asia
Afghanistan, Cambodia, India (Kashmir), Myanmar, Philippines, Indonesia, Sri Lanka
Europe
Britain/Northern Ireland, Bosnia, Croatia, Serbia
Middle East
Iraq, Israel/Palestine, Lebanon, Turkey
Former Soviet Union
Georgia, Armenia, Azerbaijan, Tajikistan, Moldova, Abkhazia
Sources: Conflict Resolution Program, The Carter Center. updated by news accounts

* *

The real revolution in China: Today millions of Chinese can hook into the "global village" via satellites. The satellites are "sprouting like bamboo shoots after a spring rain." A senior government official (quoted in the *NY Times)* states, "The leaders may not know it yet, but these days they simply can't control what the people know." Officially the dishes are illegal, but the trend is too much for officials to handle. As it did in the Soviets, the information explosion is sweeping China. Fax machines are everywhere in China. And this is very telling: the number of long distance phone calls doubled from 1989 to 1991 -- to 1.7 billion. The great sleeping giant that is China -- is awakening. I've been talking about this for two years.

Speaking of China, the country has gone on a buying spree in the US. In recent weeks, the Chinese have spent nearly $1 billion on planes, cars and oil equipment (including orders for 14,800 cars and minivans from the Big Three US automakers).

* *

Reiko Hatsumi, writing in the *International Herald Tribune*, states that when the Japanese say "Yes," that can mean "Yes," it can mean "No," or it can mean "Maybe." Hatsumi explains that a Japanese usually means that he has heard you and is contemplating a reply. This is because they feel it would be rude to keep someone waiting for an answer without supplying him with an immediate reply. Hatsumi states that Japanese is a language of implications. Is there ever a real "Yes" in Japanese? "I think so, when it is accompanied by phrases such as 'It is so,' or 'I will do it.'" Solution: Hatsumi says when speaking to a Japanese person remember that he is talking in English but thinking in Japanese. Mmmm.

GOLD, MONEY: Nothing in the entire field of investing can arouse the emotions and passions of investors like a discussion of money. Over the past few weeks I've immersed myself in books, letters and pamphlets (most of them gifts from kind subscribers) all centered on money, gold and the Federal Reserve System.

A few things are very clear. First, the Constitution of the United States does not say much about money, but what it says is clear enough. The Constitution grants Congress the power "to coin money (and) regulate the value thereof. . ." and it stipulates that "nothing except gold and silver shall be legal tender."

So what happened, and how did we end up with that non-redeemable, fiat piece of paper that we still call a dollar? And how did Congress turn over its power to a private corporation, the Fed, when the Constitution specifically stated that only Congress could "coin money"?

Ah, it's a long story, a story that some call treason, some call conspiracy and others simply call "modern monetary evolution." This much is clear to me. In removing from Congress the power to coin money and regulate it, the Constitution was unquestionably subverted. Was it a conspiracy or was it the result of men who thought they were moving America's money system into the modern world? I go a lot by intentions. Was it the intention of Aldridge and Warburg and the other men who formulated the original plan for the Fed, was it their intention to do right for the nation? Or was it their intention to secretly control the monetary system of the US and thereby become the most powerful group of conspirators in the world?

I don't know the answer. I am now thoroughly familiar with both sides of the argument, but I doubt if there will ever be a conclusion to the puzzle. For our purposes, however, one thing is clear. The Fed can create and does create money "out of thin air." They do this by buying bonds and paying for those bonds by creating book-entry credits.

The way the system was supposed to work was via monetization of gold. Since there is a limit to the production of and the amount of gold, this places a natural barrier to unrestricted production of money.

But today, instead of monetizing gold on a fixed standard, the Fed monetizes US government securities, and it monetizes them in any quantity it wants. Furthermore, by the Monetary Act of 1980, the Fed is allowed to monetize the securities of any government or government agency -- worldwide. For instance, the Fed could buy the bonds of Mexico, convert those bonds to dollars, and thus allow Mexico to pay off its debts. In effect, the 1980 Act allows the Fed to be a bail-out agency to anyone, anywhere it wishes.

But the crux of it is that gold has been removed from the system, and the Fed can now create money at will, simply by buying bonds and issuing credits on those purchases. The result -- with unlimited money-creation powers, the Fed has become a potential (if not actual) engine of inflation. The creation of an endless stream of credits has allowed the US to spend and grow far beyond what would be the case under the gold standard. The fruits of this new

"advanced" process are inflation and a relentless loss in the purchasing power of the dollar.

Through all this strange and mysterious puzzle, one fact rises above all others -- gold is the only real money. The Fed can continue to create "dollars" out of thin air, but what are they creating? The dollar was originally defined in terms of a specific amount of gold or silver. Today there exists no definition for the dollar. All we know is that our government mandates that a dollar is legal tender for all debts.

So what's the US dollar worth? Well, today it's worth 90 cents in terms of a yen or it's worth 69 cents in terms of a Swiss franc. But forget the other currencies, what's a dollar worth on its own? Nobody knows. Divorced from gold or silver, the dollar is worth whatever you can buy with it. That's today. A year from now the dollar could be worth two cigars or three cigars -- it all depends on, well, on how much confidence the world has in the dollar.

Here, this is off my DTN satellite commentary, April 23 -- *"Bonds were pressured today on notions the dollar is headed south. The marketplace is fearful that the new administration has embarked on a dollar depreciation campaign, not unlike 1987 when Baker publicly endorsed a carefree attitude towards the dollar. The Japanese government has expressed deep concerns over the recent rise in the yen and has said that further yen advances will result in repatriation of US assets. One floor broker made the comment, 'It's impossible to talk the dollar down and not have people scared about owning bonds.' The metals markets went crazy today over inflationary fears stemming from the weakening dollar. June silver was up 4 cents and June gold closed up over six dollars."*

So that's the way the news came in over the wires on April 23. The world is watching, the foreign exchange guys and gals are keeping their eyes glued to their screens, and the markets are adjusting, ever-adjusting to events that may cause the dollar to move up or down.

Now consider this if you will -- in 1980 when everyone wanted tangible assets, the Dow (at around 800) would buy you only one ounce of gold. Today financial assets are adored, and as this is written, the Dow (at around 3450) will buy you not one -- but more than 10 ounces of gold. Quite a change in sentiment or perceptions, right? Today investors seem to be saying, "I'm not worried about inflation or the dollar. So just give me my stocks and bonds and the income, and the devil with gold."

But could we be at the crossroads? Is this 1980 in reverse? Because as sure as night follows day, somewhere along the line there's going to be another major change in sentiment. The change will be that investors will become discouraged (for any number of reasons) with financial wealth, and they'll turn back to tangible wealth.

The reasons for the change will almost surely be one or more of the following: (1) A major and persistent decline in the dollar will cause investors to run from the dollar and move to tangible stores of wealth. (2) The US debt situation will go completely out of control. The Fed come in and monetize the debt in a major way (setting off rampant inflation of the currency). (3) Taxes and government interference will become so pervasive that investors will prefer to hide their wealth via tangible assets rather than let it stand for all (meaning the government) to view via listed stocks and bonds.

At any rate, I simply look at the Dow/gold ratio of 1980 (1 to 1) and the Dow/gold ratio today (10 to 1), and I have to believe that we're coming very close to the time when we will begin to see the inevitable move out of financial wealth and back into tangible wealth.

On Friday (April 23) we actually received a not-so-subtle signal from the realm of the yellow metal. On that day gold shot up over $6, pushing the June contract to its highest level since last October (platinum and silver also moved up).

Where to from here? With gold one never knows. You buy the metal, you buy the gold funds, you buy gold stocks, and you wait, knowing that time is on your side, Washington is on your side, the fractional reserve system is on your side, the Federal Reserve System is on your side (yeah, they really are since they create "money" out of nothing, and money created out of nothing ends up being worth -- nothing). It's all very cynical, but in this business we have to deal with what is, not with the way we'd like the world to be.

That being my story, let me say that gold appears to be on the move along with silver, diamonds, gems, and even art, furniture and collectibles in general (I judge this from catalogs and prices from the Sotheby and Christie auctions). We don't see the BIG increases in prices yet, but we do see higher prices, prices well off their lows.

I think (if you haven't done so already) that this is the time when you have to "get your feet wet" with gold. There are a number of ways of doing this. You can buy the coins, which is the most conservative way of actually "owning" gold. Buy some American Eagles or Krugerrands or Maple Leafs and keep them in your bank vault. They won't tarnish or rust, and you can tell yourself that you own a portion of the oldest and most reliable real money in the world. Buy a few coins, you'll love them.

Gold stocks? They've done well this year. Since January most of the gold funds are up between 20% to 50% (to the consternation of most fund managers), but historically the gold funds are still near their lows.

I've mentioned gold shares that I like: American Barrick, Placer Dome, Pegasus, Newmont Mine, Pegasus, Newmont Gold, Royal Oak (AMEX).

Here's another addition. Agnico-Eagle (AEAGF on the NASDAQ) sold for 35 as recently as 1987. The stock now sells for just over 6 and is worth buying and holding. This Canadian mining company continues to explore for gold, and its LaRonde mine near Val d'Or is one of the most productive mines in Canada. A few weeks ago the company stated that two high-grade exploration holes near the main LaRonde shaft may turn up large new deposits. I've known Agnico-Eagle's president, peripatetic Paul Penna, for many years. He's an aggressive, honest businessman, and he lives and dreams the gold business.

LATE NOTES: This is an important week for the stock market (c'mon, aren't they all?). The reason it's important (turn to the page 2 chart) is that any real weakness in breadth this week will take the A-D ratio down a full point from its April 16 high, thus ENDING the Buying Stampede. If the Buying Stampede ends, market action is going to change, and I would expect (at best) a period of correction.

In the meantime, gold (June contract) has rallied over 350. And the dollar has turned weak, very weak. The Clinton administration thinks that a declining dollar will be good for business. Ah, does the Clinton crowd have a lot to learn.

Many months ago I told subscribers to buy the December call on gold, the 370s (which were then two dollars) and the 400s (which were one dollar) Today the 370s are up to $7 and the 400s are at $2.70. The world in the *WSJ* (April 26) is that several BIG speculators are loading up on gold options. I know I have (and I'm just a little gold speculator). I reason this way -- everybody still hates gold. The public is OUT of gold, the big guys are not in it yet, the funds are basically out of gold -- in other words, the metal is largely SOLD OUT. Nobody's got the yellow metal (I checked with my local coin dealer and he says things are quiet).

Finally, almost every nation in the world is monetizing, pumping up their paper currencies. Why heck, we're creating over a billion dollars a day in new "out of thin air" dollars. So why shouldn't real money get more expensive?!

NEXT MAILING: May 12, 1993